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FISCAL IMPACT STATEMENT

LS 6827 | **NOTE PREPARED:** Jan 3, 2004
BILL NUMBER: SB 384 | **BILL AMENDED:**

SUBJECT: Senior Citizen Property Tax Credit.

FIRST AUTHOR: Sen. Craycraft | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill provides a property tax credit payable from the Property Tax Replacement Fund to a homestead owner who is at least 65 years of age and whose adjusted gross income is less than $30,000. It also appropriates money from the Property Tax Replacement Fund to pay for the property tax credits.

Effective Date: July 1, 2004.

Summary of Net State Impact: The net cost of the property tax credit to the state (property tax credit cost less income tax gain) is estimated to be $10 M for FY 2006, $32 M in FY 2007, and $33 M in FY 2008.

Explanation of State Expenditures: Beginning with taxes payable in CY 2006, this proposal would permit homeowners who are at least 65 years of age before January 1 of the year in which taxes are payable to file a statement with the county auditor claiming a credit against their net property tax bill. The credit would be adjusted according to the following income-based formula. The maximum credit would be equal to one-half of the taxpayer's net property tax bill for a taxpayer with no adjusted gross income (AGI). The credit would be reduced to zero for taxpayers with an AGI equal to or greater than $30,000. Taxpayers with an AGI greater than zero but less than $30,000 would be eligible for a credit equal to the following formula:

$$\text{Credit} = \tfrac{1}{2} * \text{Net Property Tax Payment} * (1 - \text{AGI}/30{,}000)$$

For example, the credit would be equal to 1/4 of the taxpayer's net property tax bill for a taxpayer with an AGI of $15,000.

It is estimated that there will be 130,000 taxpayers eligible for this credit in CY 2006, increasing to 137,000 in CY 2008. The dollar amount of the credit is estimated at $31 M for CY 2006 and $32 M for CY 2007. The cost to the state is estimated at $10 M for FY 2006 (due to two payment in FY 2006), and $31 M for FY 2007.

This credit would be paid from the Property Tax Replacement Fund (PTRF). This fund is annually supplemented by the General Fund to meet obligations. An increase in expenditures from the PTRF would ultimately impact the General Fund.

Estimation Issues: The estimates used here are based on a database forecasting the adjusted gross income (AGI), property tax, and residence assessed value for CY 2001 through CY 2007. This database is derived from Indiana Department of State Revenue data for income taxes paid in CY 2001 adjusted for a 1.8% annual increase in AGI, property tax projections consistent with HEA 1001-2002 (SS), and population increases based on Bureau of Census forecasts. The DOR income tax data groups over-65 and blind/disabled deductions together; however, according to the DLGF, 76% of taxpayers claiming either the over-65 or blind/disabled deduction in CY 2001 and CY 2002 claimed the over-65 deduction. The number of eligible taxpayers and the total value of the credit was therefore reduced by 24% to produce an estimate for CY 2004 for the total number of eligible taxpayers and the total value of the credit. The estimates for CY 2006, CY 2007, and CY 2008 were estimated by inflating the CY 2004 estimates by 0.77% per year.

This approach excludes property owners who did not file a state income tax return in CY 2001 who would be eligible for the credit under the proposed rule. This issue was explored by estimating the number of taxpayers eligible for either the over-65 or blind/disabled deductions in CY 2001 from state income tax records and then comparing it to the actual number of deductions from Department of Local Government (DLGF) records. The estimate from income tax records is about 5% higher than the DLGF totals.

The estimate also assumes that all those who filed for the over-65 property tax deduction will file for this credit as soon as it becomes available.

Explanation of State Revenues: The credit would also reduce the cost of the state income tax deduction for property tax payments up to $2,500. Since property tax bills for those taxpayers that qualify for this new property tax credit would be reduced under this bill, the amount of the income tax deduction that they would qualify for would also be reduced. The reduction in the amount claimed would result in a gain in state revenue estimated to be $1 M in FY 2007 and years after. Revenue from the Adjusted Gross Income Tax is deposited in the General Fund and the Property Tax Replacement Fund.

Explanation of Local Expenditures: Local governments would be responsible for printing and processing the claim forms for the credit. These would create an indeterminable cost increase for the County Auditors' offices. County Auditors are funded from the county General Fund.

Explanation of Local Revenues: *Property Tax Credit*: There would be no impact on local tax revenues. Local units of government would continue to receive the same total tax revenues, regardless of the source.

Income Tax Deduction: The increase in a taxpayer's adjusted gross income due to the reduction in the amount of property tax deduction a taxpayer may take with a lower property tax liability may slightly increase local option income tax revenue.

State Agencies Affected: Department of Local Government Finance, Department of State Revenue.

Local Agencies Affected: County Auditors.

Information Sources: OFMA Income Tax Database, Tax Year 2001; Local Government Database.

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